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3 March 1964

MEMORANDUM: Deputy Director (Support)

SUBJECT: BOB/NCS Planning Statement

1. Recently I advised [] of the financial planning discussions being held within the BOB regarding the National Communications System. These discussions are most intriguing and in my view deserve a careful following by the Agency.

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2. Accordingly, as a first step in getting the total picture before us, I have assigned John McMahon of my staff the task of pulling together a complete record file on Agency positions on this subject beginning with 1948. [] has agreed to have Mr. [] assist John in this task and the results will be made available to [] and you.

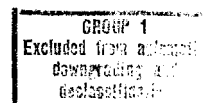
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3. I have also discussed the subject with Mr. Kirkpatrick and plan to take a personal role in association with the Office of Communications in keeping close tabs on developments. To this end I also propose making several visits to Commo installations during my upcoming trip to Europe. This has been coordinated with the Office of Communications.

4. Attached is a copy of a portion of an internal BOB paper on NCS. I understand that the Military Division of the BOB is taking a leadership role in instigating tighter centralized funding. Mr. Smith of the Bureau also reports that he has been asked to provide "an opinion" of the Agency's views on the matter and has sought our assistance.

5. I do not feel now is the time to formally commit ourselves with the Bureau on this issue beyond the letters already on record. However, there can be some advantage to having discussions with Mr. Smith and Mr. Osborne of the BOB and at that time we should have a reasonably well-thought-out position with respect to each of the alternatives proposed in the attached paper. I also submit that it would be useful to have our own alternatives in the back of our minds - particularly in view of experiences the Agency has had with

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funding controls and programs in the DD/S&T area where []
has been the executive agent.

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6. Mr. McMahon will work to prepare for a tentative exploratory meeting with Messrs. Smith and Osborne - say about 10 March - providing this meets with your [] approval. I would hope that this meeting will provide us further opportunity to get a better insight into the BOB's position - particularly Osborne who seems to be the Bureau's chief cook and bottle washer on this one.

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[]
John M. Clarke
Director of Budget,
Program Analysis and
Manpower

Attachment
as stated

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Longer-term alternatives

The longer-term financing approach adopted should support the basic NCS objective of improving management of Federal communications resources. It should also provide flexibility to meet operational needs and consistency in treatment of NCS customers.

In addressing the alternatives, several basic questions will have to be considered:

a. Should agencies pay for their own communications? It has been general Bureau policy that, to the extent practicable, user agencies should pay for services received. In this way, communications requirements are weighed and screened against other requirements by the agency involved.

b. If agencies are charged for NCS services, should the charges reflect full cost on a message basis or gross allocations of cost based on sampling of traffic volume? A detailed and comprehensive accounting system for NCS to support billing on a message basis could add significantly to total Government communications costs. For example, the Bell System accounting and billing costs run an estimated 5% of total revenues, (and it is possible that Government costs for this purpose would exceed this rate).

c. What degree of centralized financial control should be exercised over the NCS? If significant progress toward the goal of a single communications system is to be made, a major degree of financial centralization seems desirable.

d. What kind and amount of information is required to enable the President (and the Congress) to be informed of NCS progress in an accurate and timely fashion? The President and the Special Assistant, as well as the Executive Agent will need to know the status of the NCS tasks assigned to the agencies.

We are continuing to examine, with OBR and staff of other Divisions, alternative methods of financing the NCS which might be appropriate for the longer term. Five principle alternatives are as follows. (Discussion of the pros and cons based on preliminary analysis are set forth in the attachment.)

1. Retain present agency funding patterns with slight adjustments in operational and budgeting responsibilities based on the NCS planning process. This approach to the NCS would be similar to present Defense practice with respect to the DCS. The pattern would include direct appropriations to agencies operating their own communications and to agencies who reimburse GSA and other agencies (the latter category would be expected to grow).

2. Establish a single appropriation to the President for building and operating the NCS, reducing agency appropriations accordingly. Allocations might be made by the Bureau, on recommendation of the Executive Agent to the agencies operating networks.

3. Establish a single appropriation to the Executive Agent reducing agency appropriations accordingly.

4. Establish a revolving fund administered by the Executive Agent from which the NCS would be built and operated. Agencies would reimburse the fund for services received.

5. Establish a management fund into which agencies at the beginning of each fiscal year would transfer funds appropriated to them for communications to be satisfied through the NCS. The fund would be administered by the Executive Agent.

Conclusion and recommendations

We are not in a position to recommend major NCS funding changes in the 1965 budget. The NCS definition has not yet been determined, and we have not yet pulled together a complete picture of operating and costing practices for the various possible components of NCS. With experience gained in developing the initial NCS definition, the Near Term 1965 Plan, the 1965 budget, and the first Long-Range Plan (due April 1, 1964), the Bureau should be in a position to make a more complete assessment in time to be reflected in the 1966 budget. Any major change will have to be worked out carefully with a large number of Executive Agencies and checked informally with the Appropriations and other interested Committees.

Attachment

Attachment

Preliminary Analysis of Five Alternative

Approaches to Funding the NCS

The analysis summarized below attempts to sketch the pros and cons involved in five main alternatives for financing the National Communications System (NCS) over the long-term. This is based upon a preliminary assessment of the problem and is designed to aid in the further consideration of the alternatives.

Alternative 1

Retain present agency funding patterns with slight adjustments in budgeting responsibilities based on the NCS planning process. This is similar to the approach now employed with respect to the Defense Communications System (DCS), where DCA "tasks" the Services with building, operating, and funding various portions of the DCS. Under this alternative, each agency would develop its funding requirements (for approval in the NCS planning process) and would seek appropriations from Congress in the normal manner. It would include direct appropriations to agencies operating their own communications and to agencies who reimburse GSA and others for services. It would be expected that GSA services through the FTS would continue to grow.

Pros. This is the simplest solution. It would cause the least disturbance to the existing appropriation structures and agency relationships with the Congress. With adequate cost reporting and centralized management review, this approach might work for some time.

Cons. This pattern would tend to leave more control over communications programming with the operating agencies. The NCS would probably tend to remain for a longer period a loose confederation of agency networks, like the DCS, and the evolution to centralized management would tend to be prolonged. As an example, it would be harder to prevent agency reprogramming of funds budgeted for essential NCS tasks to other purposes. Also, agencies might resist absorbing additional NCS tasks dropped by another agency through reprogramming or cut by Congress. Certainly the general task of following the implementation of the NCS program through many agencies and appropriations will be more difficult for the Bureau and other NCS review agencies. Also, present inconsistencies in charges to other agencies for communications services (as between Defense and GSA) might tend to be continued.

Alternative 2

Establish a single appropriation to the President for building and operating the NCS, reducing agency appropriations accordingly. Funds could be allocated to the implementing agencies by the Bureau, on recommendation of the Executive Agent and approval of the President in the same way that foreign aid appropriations are handled.

Fros. This would emphasize the national character of the system and its responsiveness to the needs of the President. It would provide a given amount of funds for the NCS and give central authorities flexibility in managing the system, specifically in adjusting to congressional actions

or emergencies and new requirements. Only one set of congressional appropriations committees would be involved.

Cons. It might be difficult to obtain congressional approval for the single appropriation. Certain subcommittees of the Appropriations Committees would lose control over communications programs. Defense and other agencies would object to having communications funds separated from the rest of their communications and other programs. It might be more difficult to keep stated user requirements at a rational level when the user has no funding, management, or congressional justification responsibilities. A complex reporting system might be required. In addition, there might be legal difficulties with this approach, where statutory authorities are vested with various agency heads, rather than the President (the appropriation might be subject to a point-of-order).

Alternative 3

Establish a single appropriation to the Executive Agent for building and operating the NCS, reducing agency appropriations accordingly. The Executive Agent would develop a program, cost it, and request funds from Congress. He could then obligate the funds directly or request other agencies to undertake specific tasks for which funds would be allocated. Allocations might be made by the Executive Agent subject to review by the Special Assistant and the Bureau of the Budget and approval of the President.

Pros. This approach would have approximately the same advantages

as listed under 2 above. The detailed funding control and reporting system would be administered by the Executive Agent.

Cons. Placing the single appropriation for the NCS with the Executive Agent, who normally has about 80% of the total anyway, would probably reduce some objections to the single appropriation. However, the Services would probably object to a single centralized appropriation to Defense for their long-haul communications which are in the DCS and the NCS. Other agencies, especially GSA, and some members of Congress might object to giving the Secretary of Defense this additional control over communications of civil agencies. The problem of keeping user agency requirements within bounds, where the agencies have no financial responsibilities, would also be a problem. In addition, this alternative might involve the legal difficulties cited under 2 above and might involve conflict with GSA's authorities to provide and operate communications services for certain civil agencies.

Alternative 4

Establish a revolving fund for the NCS to be administered by the Executive Agent. Agencies would continue to seek appropriations for their communications needs and reimburse the fund for services received. GSA's Federal Telecommunications fund is an example of this type of operation.

Pros. The revolving fund, with the necessary working capital, would provide the desired flexibility in planning and undertaking improvements to the system in advance of the actual need and meeting unforeseen

contingencies. It would insure centralized financial management and consistency in treatment of NCS users. Since commercial-type accounting is required, it would permit both Congress and the executive branch to review the financing of the system as a whole and to know the financial status of the NCS on a profit-loss basis.

Cons. The use of a revolving fund implies that the Executive Agent would provide all services to the users, thereby shifting the responsibility for operating communications systems from various user agencies to a single agency. The administrative difficulties of such a take over would be immense. The records and accounting necessary to bill the users accurately could be very complex and costly. The revolving fund would have to be established in law and would have to be reconciled to present GSA authorities and the Federal Telecommunications fund. The initial working capital appropriation required would probably be \$200-\$400 million, which might be difficult to obtain.

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Alternative 5

Establish a management fund in to which agencies would at the beginning of each fiscal year transfer appropriations to them for communications services to be furnished through the NCS. The Executive Agent would administer the fund, assign funding responsibilities to the user agencies for various tasks, and assist the agencies in justifying the funds requested from Congress. The Navy Special Projects Office has operated such a fund for the Polaris system, into which were transferred appropriations for research and development, shipbuilding, and missile procurement.

Pros. With a management fund, there would be little change in agency relationship with the Congress. There would be considerable flexibility in administration of the NCS program so that the various parts could go forward in balance. There would also be opportunity for centralized management and review of the status of the program. The contributing agencies would still have some financial stake in the NCS.

Cons. A large number of congressional committees would be involved in the program, each of which might be able to cut vital parts of the program. The Executive Agent would require a fairly large staff to control funds contributed from many types of appropriations (which would include mixtures of no-year and annual funds, and various language limitations). The present agency reporting systems would probably have to be standardized. The management fund would probably have to be established in an appropriation act.